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### Camp Offers Option That Would Revamp Partnership Tax Law

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Partnerships such as hedge funds and private equity firms would lose some of their flexibility to allocate income and tax benefits among their members under one option proposed by the top Republican tax writer in Congress.

The proposal by Representative Dave Camp would scrap the separate rules governing partnerships and those overseeing closely held S corporations and create a unified system that adopts features of both.

Camp, chairman of the House Ways and Means Committee, released the proposal as the more aggressive of two options in a draft plan to overhaul taxation of small businesses. He also released a set of incremental changes to partnerships and S corporations, along with proposals to extend expensing rules, allow more businesses to use cash accounting and simplify deductions for startup businesses.

“It’s not meant to be a complete product,” Camp told reporters, adding that he is inviting comments from affected businesses.

Under the U.S. tax code, businesses that aren’t organized as traditional corporations pay their taxes through their owners’ individual returns, regardless of their size. The draft wouldn’t alter that rule. Many so-called pass-through companies are large, such as global accounting and law firms.

# Corporate Profits

By contrast, profits earned by corporations face a tax at the entity level and then again when shareholders receive dividends or capital gains. The Obama administration’s framework for overhauling business taxation suggests taxing some large pass-through companies as corporations.

“It is not something that I’m considering at this point,” Camp said.

The draft is the third in a series of proposals the Michigan Republican has released over the past 17 months. The other two focused on international taxation and taxation of financial products.

Camp, 59, plans to combine them into a full rewrite of the tax code that would broaden the base and lower individual and corporate rates as much as possible. He has said he expects the committee to pass the plan this year.

The committee has broken into 11 working groups that are considering various aspects of tax policy. A statement from the panel’s top Democrat, Sander Levin of Michigan, suggested that Camp’s draft pre-empts some of those groups’ studies.

## Understanding Law

“Going forward, we must allow them to do their work to fully understand the strengths and weaknesses of present law, without prejudicing their discussions by suggesting solutions to problems that are still under investigation,” said Levin, who added that Camp adopted several bipartisan ideas.

Camp’s more aggressive option on partnership taxation would loosen the rules that now apply to closely held S corporations. Those companies would no longer face limits on the number of shareholders or a prohibition on foreign ownership.

Partnerships, though, would lose the flexibility to allocate tax benefits to partners except for net ordinary income and loss, net capital income and loss and tax credits. Currently, a partnership can distribute each tax break.

Camp’s draft doesn’t affect publicly traded partnerships such as master limited partnerships and real estate investment trusts.

The National Federation of Independent Business, the International Franchise Association and the National Association of Manufacturers all issued supportive statements.

“The Camp proposal would reduce compliance costs and provide greater certainty to the more than 8 million employees across the country who wake up every day and go to work in the franchise industry and those Americans who aspire to become franchisees,” said Judith Thorman, senior vice president of government relations and public policy for the franchise association. The group’s board of directors includes executives of McDonald’s Corp. (MCD) and Choice Hotels International Inc. (CHH)

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